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SUBJECT: FRANCE SHIFTS AG FUNDING FOCUS UNDER HEALTH CHECK REFORMS

11. Summary: Following the 2008 CAP health check, France will shift some financial support from arable crops to support livestock producers; increase support to vegetable and protein crops; increase support for organic farming, and, add new risk management schemes. Farmer reactions were mixed: cattle and sheep producers (who have consistently called for more government aid) and organic farmers were satisfied. Arable crop producers condemned the lowering of their public support, despite high commodity prices last year. End summary.

12. In 2007/2008, arable crop farmers in France had strong revenues, based on high commodity prices and significant EU farm supports. At the same time, French sheep and meat goat producers, suffering from low prices and limited EU farm support, have repeatedly called for more government aid. Grass-fed cattle producers denounced the inequity between their modest financial support and the EU corn subsidy which benefits corn silage-fed cattle producers.

13. Under the recent health check reform, member states gained more flexibility to redistribute their EU farm payment budget to specific programs. To bring more balance to its farm support, France has decided to reallocate 18 percent (1.4 billion euros / \$1.75 billion) of its EU farm payments (9 billion euros / \$10 billion).

The funds will be distributed as follows:

a. 950 million euro / \$1.2 billion to establish a new fund for grass-fed cattle: This new program will be payable, per head per hectare, to producers of grass-fed cattle.

b. 265 million euros / \$326 million to encourage the farm economy and employment across France: These funds will be used to boost existing and establish new programs, including:

a. Support to sheep and goat producers (135 million euros / \$169 million);

b. Support milk production in mountain regions; (45 million euros / \$56 million);

c. Support field vegetable production (30 million euros / \$38 million);

d. Increase the compensatory payments for farmers in difficult and mountainous areas (42 million euros / \$53 million).

c. 129 million euros / \$162 million to support the development of sustainable agriculture. These funds will be targeted, for example, to increasing the production of protein crops (peas, alfalfa) to reduce imports of protein sources for feed (i.e. meals); to

encouraging a tripling of organic farming by 2012; to improving the energy self-sufficiency of farms, developing farm-based energy production, reducing water use and pollution and to increasing bio-diversity.

d. 140 million euros / \$175 million to develop more risk management tools. The Ministry will expand the crop insurance subsidy scheme and create a fund to cover losses to crops or animal production in case of phytosanitary or epizootic events.

¶4. A reduction in direct payments to arable crop farmers and a small deduction on all direct payments (including animals) will be the primary funding source for these programs.

¶5. Ag Minister Barnier stated that the budget reallocation was necessary to maintain public support for a strong, but equitable, farm policy particularly given that France is expected to become a net contributor to the EU budget by 2010.

¶6. Farmer reactions were mixed: Organic and livestock producers, who will receive almost 69% of the reallocated funds, supported the government's new programs while arable crop producers, who will lose the most in public support, condemned the changes.